TURNOVER SAVINGS FROM RETIREMENTS IN NOVEMBER 2005 THROUGH APRIL 2006

A REPORT TO THE EXECUTIVE APPROPRIATIONS COMMITTEE

OFFICE OF THE LEGISLATIVE FISCAL ANALYST

MARK BLEAZARD, TEAM LEADER
STEVEN ALLRED
JULIETTE TENNERT
ANDREA WILKO

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EXECUTIVE SUMMARY

A combination of Governmental Accounting Standards Board (GASB) rule changes, legislative changes, and an aging workforce led to a surge in retirements in Fiscal Year 2006. Executive branch retirements in 2005 totaled 815, compared to 343 in 2004. The purpose of this study is to determine whether the surge in retirees created turnover savings.

The Analyst studied all 460 executive branch retirees during the period of November 2005 – April 2006 as a representative sample. Savings and cost estimates are based on a snapshot of data as of July 2006.

The Analyst first investigated the ongoing savings resulting from each "domino" falling into place as positions are filled or left vacant. When a retiree is replaced oftentimes the replacement is an internal candidate, which creates another vacancy in an agency which must also be filled. Savings based on positions that have been refilled total $3.9 million, of which $1.8 million is state funds.

Seventy-two positions held by retirees in the study group remain vacant. If all of these positions remained vacant, an additional $3.5 million ($1.8 million state funds) would be saved. However thirty of those positions are under on going recruitment and fourteen have been abolished, the remaining twenty-eight are being studied to determine which will be filled and which will be abandoned.

The Analyst also considered increased costs. Findings indicate that if all vacancies are filled, annual additional costs of $214,300 will occur in medical insurance benefits due to younger employees having more family coverage. Further, the 460 employees in the study group received $5.5 million in leave pay-outs. These pay-outs, combined with those of other retirees, depleted the state's termination pools in FY 2006. Several options are presented for restoring the term pools.

The Analyst recognizes several non-quantifiable factors such as productivity, institutional memory, recruiting costs, and training costs. It is also unknown how quickly savings will shrink over time as compensation for replacements increases and approaches the compensation of the retirees.

This report recommends that the Executive Appropriations Committee direct the Legislative Fiscal Analyst to work with each appropriations subcommittee to examine and make recommendations of what proportion of the identified savings should be removed from ongoing budgets for FY 2007 and 2008. An alternative recommendation is to place savings identified by the subcommittees into the termination pools if a need is presented based on future projections.

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OVERVIEW

A combination of Governmental Accounting Standards Board (GASB) rule changes, legislative changes, and an aging workforce led to a surge in retirements in Fiscal Year 2006 as reflected in Table 1. Executive branch retirements in 2005 totaled 815, compared to 343 in 2004, an increase of 472. In December 2005, 312 employees retired, compared to 17 in December 2004.

Executive Branch retirements in 2005 totaled 815, compared to 343 in 2004

Executive Branch Retirements

2004	**# of Retirees**	**2005**	**# of Retirees**	**2006**	**# of Retirees**
January	49	January	72	January	21
February	21	February	19	February	8
March	20	March	38	March	24
April	37	April	43	April	54
May	29	May	38		
June	34	June	48		
July	38	July	63		
August	31	August	60		
September	29	September	35		
October	22	October	46		
November	16	November	41		
December	17	December	312		
Total	**343**		**815**		**107**
Total Retirements in Study Sample (November 2005 - April 2006)					**460**

Table 1

The purpose of this study is to determine whether the surge in retirees created turnover savings as positions formerly held by long-term employees are refilled. Working with data provided by the Department of Human Resource Management (DHRM), the Analyst selected the period of November 2005 through April 2006 as a representative sample for study. May 1, 2006 was set by the Utah Supreme Court as the effective date of retirement changes laid out in House Bill 213, 2005 General Session. It is recognized that some employees who retired prior to November may have had impetus from GASB or legislative changes; it is also recognized that some retirements that occurred after November may not have had impetus from GASB or legislative changes. Nevertheless, the sample size is 460 retirees, which is approximately equal to the total increase in retirees in 2005 compared to 2004.

As a point of interest, the judicial branch had 46 retirees in 2005, compared to 19 in 2004. The Executive Appropriations Committee

may request a continuance of this study to include the Judicial Branch, higher education and public education if desired.
This study investigates whether turnover savings occurred in state government by answering the following questions:

1. What are the ongoing savings as positions are filled—accumulated through the "domino effect" up to the final hire or unfilled vacancy related to the retirement?

2. What is the expected impact of positions still vacant?

3. What are the savings (costs) in insurance premiums for replacement employees?

4. What costs were borne by the state's termination pools?

5. What other non-quantifiable financial impacts may exist?

WHAT ARE THE ONGOING SAVINGS AS POSITIONS ARE FILLED?

The Analyst reviewed detailed data gathered by DHRM for all 460 retirees in the study sample. Data included hourly savings (or costs) resulting from each "domino" falling into place as positions were filled or left vacant.

Domino effect: When a retiree is replaced oftentimes the replacement is an internal candidate, which creates another vacancy

When a retiree is replaced oftentimes the replacement is an internal candidate, which creates another vacancy in an agency which also must be filled, and so on, until a position either remains vacant or is filled with a public applicant.

Approximately 42 percent of the 460 positions left by retirees in the sample period were filled with one hiring action (no additional vacancies created in the agency). Another 16 percent of vacant positions left by retirees have yet to be filled. On the opposite extreme, two vacant positions required eight hiring actions until the original vacancy was filled. All of the savings (sometimes costs) from each hire, compared to the former position holder, were calculated and summed for this study.

Table 2 displays a summary of savings by department, which totals $3.9 million per year. Savings are broken out into state funds and non-state funds, according to the existing funding ratios in the divisions and programs where the retirees worked. The table includes actual savings for filled positions. Positions left vacant may create additional savings once they are filled or closed out (please refer to the discussion on vacancies below Table 2).

Yearly salary savings for retirees between November 1, 2005 and April 30, 2006 total $1.8M in state funds

Retiree Salary Savings (Costs) Summary
For Retirees November 1, 2005 to April 30, 2006

	# of Retirees	Savings (Costs) Per Hour	Savings (Costs) State Funds	Savings (Costs) Non-State Funds
Administrative Services	23	$45.24	$28.89	$16.35
Agriculture	4	$7.78	$5.86	$1.92
Alcoholic Beverage Control	10	$22.95	$0.00	$22.95
Attorney General	5	$19.02	$7.30	$11.72
Community & Culture	9	$10.24	$10.08	$0.16
Corrections	50	$197.78	$197.78	$0.00
Education	25	$116.64	$61.91	$54.73
Environmental Quality	5	$22.67	$4.57	$18.10
Governor's Office	3	$10.96	$8.91	$2.05
Health	30	$82.36	$37.53	$44.83
Human Services	79	$336.91	$168.85	$168.06
Insurance	3	$7.26	$7.26	$0.00
Labor Commission	3	($1.02)	$5.12	($6.14)
National Guard	4	$7.71	$7.71	$0.00
Natural Resources	42	$217.49	$63.45	$154.04
Public Safety	45	$245.81	$149.92	$95.89
Public Service Commission	1	$9.47	$0.00	$9.47
Tax Commission	16	$73.13	$62.10	$11.03
Transportation	57	$287.11	$0.00	$287.11
Treasurer	1	Vacant	$0.00	$0.00
Workforce Services	45	$166.81	$33.24	$133.57
Total	460	**$1,886.32**	$860.48	$1,025.84
Yearly Salary Savings (2080 hours)		**$3,923,545.60**	$1,789,798.40	$2,133,747.20

Hourly savings data source: DHRM

Table 2

WHAT IS THE EXPECTED IMPACT OF POSITIONS STILL VACANT?

After examining the positions vacated by 460 employees during the six month sample, 72 positions remain vacant at a cost of $3.5 million. Table 3 shows the agency vacancies that relate to the retiree sample mentioned above. The Analyst is working with the Department of Human Resources to determine the status of each position. DHRM reports that as of July 14, 2006 thirty positions are having ongoing recruitment ($1,474,782); six have been reclassified and will be filled at later date ($328,474); twenty-two vacancies are being studied to determine whether they will be filled or abolished ($1,128,754); and fourteen positions have been abolished ($622,378) and funding will be adjusted during the 2007 General Session.

Vacant Positions Savings Summary For Retirees November 1, 2005 to April 30, 2006				
	# of Positions Still Vacant	Savings/Hr	Savings/Hr State Funds	Savings/Hr Non-State Funds
Administrative Services	6	$181.69	$122.68	$59.01
Agriculture	1	$22.65	$16.99	$5.66
Alcoholic Beverage Control	2	$35.25	$0.00	$35.25
Attorney General	1	$19.77	$7.51	$12.26
Community & Culture	3	$50.10	$49.10	$1.00
Corrections	10	$227.92	$227.92	$0.00
Education	3	$73.25	$38.82	$34.43
Environmental Quality	1	$17.73	$3.55	$14.18
Governor's Office	1	$18.22	$14.76	$3.46
Health	5	$117.66	$54.13	$63.53
Human Services	10	$249.66	$124.83	$124.83
National Guard	2	$43.66	$43.66	$0.00
Natural Resources	9	$223.71	$64.88	$158.83
Public Safety	4	$95.86	$58.47	$37.39
Tax Commission	2	$50.98	$43.33	$7.65
Transportation	6	$149.98	$0.00	$149.98
Treasurer	1	$11.50	$11.50	$0.00
Workforce Services	5	$119.25	$23.85	$95.40
Total	**72**	**$1,708.84**	$905.98	$802.86
Yearly Savings (2080 hours)		**$3,554,387.20**	$1,884,438.40	$1,669,948.80
Data Source: DHRM				

Table 3

Approximately twelve of the 72 vacant positions are information technology (IT) related. Under *Information Technology Governance Amendments* (H.B. 109, 2005 General Session) all IT positions in the state were consolidated into a new Department of Technology Services. Most of the IT positions were also converted from career protected to at-will in exchange for an 8% salary increase. In implementing H.B. 109, DTS established a hiring freeze and is using all savings from the twelve vacant positions, as well as savings from other vacancies not related to retirement, to pay for the 8% conversion incentive.

WHAT ARE THE SAVINGS (COSTS) IN INSURANCE PREMIUMS FOR REPLACEMENT EMPLOYEES?

The authors of this study asked whether the state absorbed a financial impact from the differences in medical and dental insurance benefits of replacement employees compared to the former benefits of retirees. The question was driven by the possibility of retirees being older and therefore in many cases having single or two-person coverage, compared to younger workers who would be more likely to have family coverage.

Data provided by DHRM showed that 33 percent of the retirees had family medical coverage, compared to 62 percent for their direct replacements. Because some positions remain vacant, Table 4 uses average cost per employee to compare total costs of replacement employees to former employees. Assuming that current vacancies will be filled, the ongoing annual medical and dental insurance benefit costs of replacement employees exceed costs of former employees by $214,400.

If all current vacancies are filled, ongoing annual medical and dental insurance benefit costs of replacement employees will exceed costs of former employees by $214,400

Savings (Costs) in Insurance Benefits
Retirees Compared to Direct Replacements

Medical Insurance

Coverage	Retirees	Average Annual Employer Costs Per Employee	Replacements to Date	Average Annual Employer Costs Per Employee
None	0%	$0	8%	$0
Single	20%	$3,822	9%	$3,804
Double	47%	$7,885	21%	$7,805
Family	33%	$10,519	62%	$10,416
Total	100%	$8,049	100%	$8,461
Total for 461 employees		$3,710,600		$3,900,400
Savings (Costs)				($189,800)

Dental Insurance

Coverage	Retirees	Average Annual Employer Costs Per Employee	Replacements to Date	Average Annual Employer Costs Per Employee
None	0%	$0	5%	$0
Single	20%	$516	10%	$488
Double	47%	$667	26%	$667
Family	33%	$967	59%	$967
Total	100%	$736	100%	$789
Total for 461 employees		$339,100		$363,700
Savings (Costs)				($24,600)

Savings (Costs) Medical and Dental Combined: ($214,400)

Data Source: DHRM

Table 4

WHAT COSTS WERE BORNE BY THE STATE'S TERMINATION POOLS?

When state employees retire, the state pays them certain post-retirement benefits that should be considered in the broad picture of calculating turnover savings. Some of these costs are one-time (leave payouts) and some are ongoing to a limited extent (health insurance premiums as long as employees are eligible).

Regarding leave payouts, the 460 employees who retired between November 1, 2005 and April 30, 2006 received one-time payouts for accrued annual leave, converted sick leave, and 25% of sick leave totaling $5.5 million, as shown in Table 5.

Total one-time pay out for accrued leave totals $5.5 million for the retirees under study

Retiree One-Time Term Pool Payouts
For Retirees November 1, 2005 to April 30, 2006

	# of Retirees	Total Leave Buyout
Administrative Services	23	$314,325
Agriculture	4	$21,503
Alcoholic Beverage Control	10	$130,292
Attorney General	5	$107,020
Community & Culture	9	$55,596
Corrections	50	$503,237
Education	25	$525,719
Environmental Quality	5	$32,383
Governor's Office	3	$28,862
Health	30	$358,982
Human Services	79	$673,723
Insurance	3	$39,977
Labor Commission	3	$17,930
National Guard	4	$21,493
Natural Resources	42	$695,883
Public Safety	45	$708,317
Public Service Commission	1	$19,544
Tax Commission	16	$148,674
Transportation	57	$631,718
Treasurer	1	$457
Workforce Services	45	$450,274
Total	460	**$5,485,907**

Data Source: Division of Finance

Table 5

The state set up termination pools in 1994 to smooth out budget shortfalls that frequently occurred as employees (particularly in small agencies) retired. Individual agencies were previously faced with huge payouts to retiring and terminated employees for accrued annual leave, converted sick leave, 25% of sick leave, and retiree health insurance premiums. At that time a pool was set up for the Department of Transportation, Public Safety, Education and all other agencies (the General pool). Each pool has its own labor additive rate to fund annual payouts and is centrally administered by the Division of Finance. Projections are made each September and presented to the Governor’s Office and the Legislature to cover estimated pool charges for the next fiscal year.

Payouts for the large number of retirees in FY 2006 depleted the state's termination pools

Payouts for the large number of retirees in this study sample and other retirees in FY 2006 will deplete the termination pools, as demonstrated in Table 6.

Combined Termination Pool Balances

Fiscal Year	Revenue from Rates	Payouts	Over (Short)	Cumulative Over (Short)
FY 1997	$9,682,300	$10,447,900	($765,600)	($5,645,200)
FY 1998	$12,437,600	$11,527,000	$910,600	($4,734,600)
FY 1999	$15,383,500	$13,453,500	$1,930,000	($2,804,600)
FY 2000	$16,491,300	$15,081,600	$1,409,700	($1,394,900)
FY 2001	$17,553,400	$15,858,600	$1,694,800	$299,900
FY 2002	$19,756,400	$17,565,000	$2,191,400	$2,491,300
FY 2003	$19,917,200	$19,871,500	$45,700	$2,537,000
FY 2004	$19,864,900	$20,533,600	($668,700)	$1,868,300
FY 2005	$22,333,900	$23,832,000	($1,498,100)	$370,200
FY 2006 Est	$22,830,700	$30,818,600	($7,987,900)	($7,617,700)

Data Source: Division of Finance

Table 6

With passage of H.B. 213 in the 2005 General Session and changes in GASB, Finance will separate health insurance premiums (otherwise known as Other Post Employment Benefits, or OPEB) from leave payout benefits effective the start of FY 2007. The 2006 Legislature funded the FY 2007 bifurcated termination pool rates.

This fall the Division of Finance will work with GOPB and LFA to work out the best way recoup termination pool losses

Concerning the shortfall in FY 2006, this fall the Division of Finance will meet with the Governor's Office and Office of the Legislative Fiscal Analyst to work out the best way to recoup the shortage.

If retirement numbers and term pool payouts continue to exceed the revenue generated by the termination pool rates, any of several options, or a combination of them, could be used.

1. The Division of Finance would estimate the portion of the shortfall that is due to health insurance and amortize the total amount with the OPEB actuarial amount over the 25-year period.

2. Increase the labor additive rate to an amount sufficient to recover the shortage over a number of years, such as five or ten.

3. Finally, the Division of Finance could request a supplemental appropriation equal to the combined shortage, but this option is not as desirable as others because recovering the shortfall

through rates allows the division to bill federal grants and other restricted sources.

WHAT OTHER NON-QUANTIFIABLE FINANCIAL IMPACTS MAY EXIST?

Non-quantifiable impacts include productivity changes, recruiting and training costs, and the duration of savings

Some other possible financial impacts should be considered but would be difficult to quantify due to lack of data or unknown future employee performance. These include losses or gains in productivity as positions are filled with new, possibly less-experienced employees; time and money spent in recruiting efforts; and time and money spent on training for employees hired to new positions.

It is also unknown how quickly any achieved savings will shrink over time. The Legislative Auditor General issued a report (#88-03) in 1988 related to the enactment of an early retirement bill passed during the 1987 General Session. Some 2,511 employees elected to retire early because of that legislation, creating some of the same costs and savings as are being experienced with the above-average number of retirements during the past eighteen months. That report stated: "Savings beyond year two will decrease annually. This occurs as replacement salary and benefits begin to increase and approach the salary and benefit levels of the retirees."

CONCLUSIONS AND RECOMMENDATIONS

The Analyst recommends that the Executive Appropriations Committee direct the Legislative Fiscal Analyst to continue to examine the fiscal impact of the increased numbers of retirees by appropriations subcommittee. Also the individual subcommittee analysts should make recommendations of what proportion of the identified savings could be removed from ongoing budgets for both FY 2007 and FY 2008.

An alternate recommendation is that as each subcommittee identifies savings, as directed in the above recommendation, that all or part of those ongoing savings be used to reduce the one-time depletion of the termination pool balances as identified in Table 5. More accurate projections of the shortfall will be made this fall.

Either recommendation applies the understanding that these subcommittee actions will subsequently be approved by the EAC.